

Honesty and Integrity Investment (HNI Investment)

Email for Dec. 2018

Dear Friends,

Here are the details of performance of HNI investment based on the share prices as on 31st Dec. 2018

| Annualised Returns (IRR) ^{(1) (2) (3) (4)(5)} | HNI Portfolio | Nifty | Sensex |
|---|----------------------|--------------|---------------|
| FY13 | -10.6% | -5.3% | -3.7% |
| FY14 | 112.2% | 21.1% | 21.3% |
| FY15 | 21.6% | 25.0% | 23.0% |
| FY16 | 86.0% | -7.0% | -7.7% |
| FY17 | 168.3% | 21.9% | 20.1% |
| FY18 | 66.4% | 17.0% | 18.8% |
| Q3FY19 – IRR | -21.2% | 4.5% | 4.9% |
| Q3FY19 – Absolute Change | -5.8% | 1.1% | 1.2% |
| From Inception till 30th Sep. 2018 | 78.6% | 12.8% | 12.7% |
| From Inception till 31st Dec. 2018 | 72.4% | 11.3% | 11.3% |

(1) For all HNI clients and promoters (2) Inception was in August 2012 (3) Gross IRRs excluding the impact of HNI investment fees (4) Return during the quarter is reported only when it's adverse i.e. negative or lower than Sensex/Nifty. Quarterly IRRs looks overblown due to compounding effects of short periods (5) Absolute change is calculated based on IRR numbers for the quarter

The portfolio value in absolute terms is down by 5.8% during the quarter. We also bought one more stock. As always, we hope to do more in future. I am really excited because we have started seeing value emerge in some companies in a particular market segment, although it's not there yet. I hope it will be soon. Let's see.

As you might have noticed, we have not been performing well over last few quarters but that's fine because these are all short term numbers. However point to be noted is that during the initial part of the financial year, our quarterly performance did not had any substantial impact on our long term returns because the absolute level of investment was really low. This has started changing recently. We have bought two stocks over last three quarters. The amount put to use on these stocks is relatively higher than the historical capital deployed. This is due to the fact that there were a large number of clients who were sitting on fences waiting for us to find suitable investment opportunity. Hence going forward our short term quarterly performance will substantially impact our long term historical returns as well. But that's fine so long as the chosen stocks irrespective of short term volatility protect our capital over long term. Unlike the popular wisdom prevailing on the street, volatility, as I have repeatedly said, is not a measure of risk at all. You should also take note of the fact that we report IRR of the total actual portfolio of all clients and promoters put together (not any model portfolio of stocks).

We currently have 3 stocks in the portfolio. All three of them are currently trading at close to or below their average purchase price. It's important to talk about them at this stage.

During June quarter we bought a company whose business is of commodity nature. It met the capital protection criteria even in the worst case scenario for its business. As things started unfolding, the worst case scenario has actually started panning out for this company. I think it should protect our capital in the present state of the business over long term. However we need

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to be watchful of situation turning to be worse than our worst case scenario. Should it happen, we will cut our losses and accept the defeat because it would be rational thing to do so. As of now I do not feel the need to do anything.

During December quarter, we bought the stock of a public sector enterprise. Some of you might be really worried as to why we would take exposure to a public sector enterprise because your experience of investing in them is not so great. For that matter my experience is substantially different. Earlier we invested in a PSU which gave us a return of 3.4x in 13 months. But what is your experience and what is my experience is not the right question to ask. In fact as I have said earlier, experience is not an asset if you are not ready to repeal it when needed. Neither should you go with your experience of losses in this field, not should I go with my experience of exceptional returns in the same field. The fact is that the facts justified its purchase with capital protection in mind so we acted and bought. I feel completely safe and sleep really well after buying this stock. Let's see what happens over long term.

Apart from the above 2 stocks, we have another small exposure in our holdings. There is no change in fundamentals of the stock from the time we bought it. Stock price keep fluctuating all the time. We cannot help it. All is well in my view.

That's it for the quarter from my side. I would also like to wish all of you a very happy and prosperous new year. Happy to answer any questions that you might have...